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Update of the 3rd International Methane & Nitrous Oxide Mitigation Conference

The 3rd International Methane & Nitrous Oxide Mitigation Conference is to be held September 14 ~ 19 2003 in Kunlun Hotel, Beijing. The purpose of this International Conference is to provide a communication opportunity to experts from all over the world to facilitate their seeking alternatives to mitigate the emission of methane and nitrous oxide and the ways to minimize the obstacles to the development of methane & nitrous oxide mitigation projects. Among other things, the conference will focus on in-depth discussion of the main emission sources of methane and nitrous oxide. This will relate to coal mining, agriculture, landfill and sewage management, natural gas and oil system, etc. The conference participants will have the chances to participate in special discussion meetings focusing on various areas. Topics dealt with include methane and nitrous oxide emission mitigation related testing and calculation methods, economic benefits of the emission mitigation and analysis of different emission sources, etc.

So far, the Organizing Committee of this International Conference has received a total of more than one hundred paper abstracts. It is thus announced that the deadline for the acceptance of paper abstracts will be postponed until the end of March. The Organizing Committee of the International Conference once again sincerely asks for your contribution of your paper abstracts and your kind participation.

The 3rd International Methane & Nitrous Oxide Mitigation Conference sincerely welcomes the co-sponsorship of government departments, international institutions, foundations, international and domestic companies to this International Conference. This International Conference will be the best platform for the co-sponsorship units to display the units proper and promote cooperation. Logos of the co-sponsorship units will appear on the background panel on the Conference rostrum as well as in related printed materials so as to leave a deep impression on the participants. The Organizing Committee of this International Conference would like to discuss with the potential co-sponsorship units on any other ways of co-sponsorship to satisfy the needs of the co-sponsorship units.

In addition, this International Conference will also provide small-sized exhibit. This International Conference to be attended by over 300 experts is definitely the best place to publicize your own image.

For details about co-sponsorship and exhibition booths, please contact Mr. Clark Talkington or Ms. Liu Xin at:

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China, US Jointly Exploit Coalbed Methane in Shanxi Province

China United Coalbed Methane Co., Ltd. (CUCBM) signed a production sharing contract with US-based Sino-American Energy Inc.

March 3 for cooperative development of the coalbed methane resources in north China's Shanxi Province.

The contracted block of 150.8 square km is located in Qinshui County of Jincheng City, which has convenient transportation facilities with neighboring cities in Shanxi and Henan provinces where demand for clean gas energy is increasing.

The development of coalbed methane is of strategic significance for the progress of local economy, readjustment of energy structure and the utilization of clean energy. The block is close to the west-east national gas pipeline now under construction, which will facilitate the transportation and sales of coalbed methane there.

With estimated coalbed methane reserves of 30 billion cubic meters, the block is suitable for commercial development, and is expected to become the first to enter the development stage among all Sino-foreign blocks.

To date, the CUCBM has signed 19 coalbed methane contracts with foreign companies, with a total contracted area of more than 32,000 square km and coalbed methane reserves of more than 3.4 trillion cubic meters. As of the end of 2002, foreign investment had reached 90 million US dollars.

According to the contract signed with the CUCBM, Sino-American Energy, which specializes in the exploration, development and production of coalbed methane resources, will introduce its advanced

horizontal well technology for pilot development in China. The two investors will share production during the development and production periods according to their investment proportion.

State Council: organizational restructuring scheme unrolled

Drawing close attention from all walks of life, the organizational restructuring scheme of the State Council is to be examined at the tenth National People's Congress. According to this restructuring scheme, the State Council is to set up the State Commission of State Assets Supervision, the State Development and Reform Commission, the State Banking Industry Supervision Commission and the Ministry of Commerce, etc. On the other hand, the State Economic and Trade Commission (SETC) and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and some other ministerial departments will be locked into history.

Touching the key areas of reform, the restructuring of the State Council organization means to solve some of the very tough problems in the administrative management system so as to provide reform, opening to the outside world and modernization drive with organizational assurance.

It is learned that the current restructuring of the State Council organization is focused on the following areas: further deepening the reform on state assets management system, further improving macro regulation system, improving financial supervision system, further pushing forward marketing management system reform and further strengthening food safety and work

safety supervision and management system building. The State Council organizational restructuring will cover seven areas: for deepening reform on state assets management system, the State Commission of State Assets Supervision is to be established; for improving macro regulation system, the State Development Planning Commission (SDPC) is to be transformed into State Development and Reform Commission; for improving financial supervision system, China Banking Industry Supervision Commission is to be established; for continuing marketing management system reform, the Ministry of Commerce is to be established; to strengthen food safety and work safety supervision system building, the State Food and Drug Supervision Administration is to be established on the basis of the State Drug Supervision Administration and the State Administration of Work Safety under the State Economic and Trade Commission is to be reshuffled into an organization directly affiliated to the State Council; the State Family Planning Commission is to be renamed State Population and Family Planning Commission. The State Economic and Trade Commission (SETC) and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) are to be cancelled.

On the basis of the State Council organizational restructuring scheme, the State Council is to be composed of 28 departments except for the Administrative Department of the State Council.

It is learned that this organizational restructuring scheme on the one hand pays attention to the relative continuity of the State Council structure and it also considers the necessity to get things adapted to the requirements of the social and economic development as well as the demands

for a deepened reform on administrative management system on the other.

According to the stipulations in the Law of the State Council Organization, the restructuring of the State Council departments are to be examined and ratified by the National People's Congress. The newly added State Commission of State Assets Supervision, China Banking Industry Supervision Commission, the State Food and Drug Supervision Administration and the readjustment of the State Administration of Work Safety system are to be examined and ratified by the reshuffled State Council.

Will State Energy Commission be set up?

It is disclosed by the State Economic and Trade Commission (SETC) that China is now considering the reestablishment of the State Energy Commission based on the relevant international experiences. This is based on the consideration that the domestic resources are to be pooled together to cope with China's energy security and China's participation in the international competition.

The past two decades witnessed the ups and downs of the energy departments of the state government. The first session of the Seventh National People's Congress held in 1988 decided that the former Ministry of Coal Industry, Ministry of Petroleum Oil Industry and the Ministry of Water Conservancy and Electric Power were superseded by the Ministry of Energy. The first session of the Eighth National People's Congress held in 1993 made a decision that the Ministry of Energy was cancelled and the new Ministry of Coal Industry and Ministry of Electric Power Industry were

established. Then, it was decided by the first session of the Ninth National People's Congress held in 1998 that the Ministry of Coal Industry and the Ministry of Electric Power Industry were cancelled. Up to now, China's energy industry lacks a complete and comprehensive administrative management framework whereas about a dozen of government departments such as ministries, commissions and the like including the State Development Planning Commission (SDPC), the State Economic and Trade Commission (SETC) and the Ministry of Land and Resources are involved in the industrial management relating to the energy sector. On the other hand, none of these departments have full and sufficient authorities on oil industry management.

At the same time, the delayed reform in energy administration system has imposed an impact on the establishment of an energy security mechanism. For example, the pricing of the downstream gas sales, a part of the state project of "western natural gas transmission to the east", has not yet met by a rationalized pricing mechanism that is based on a scientific calculation. In the midstream of the pipeline of this project, shall the pipeline be open to China United Coalbed Methane Co Ltd and some other third party companies once it is completed? If not, the third party companies such as China United Coalbed Methane Co Ltd and some other companies must lay their own pipelines. This would result in a waste of resources. All these problems remain pending because no definite answers have been provided.

However, some experts also worry about the possibility that the establishment of a special department for energy administration would be

confronted by objections from the three major oil groups. “Only the PetroChina’s annual profits account for 1/5 of the annual total profits earned by all the state-owned enterprises of this country. Just think about the weight of its say!” In fact, some officials with PetroChina did speak to the news media that they are against the move to set up such an oil administration department.

Experts of the authoritative organization of the State Council said on the other hand that in planning the policies governing China’s energy development and energy imports, it is a must to consider the international geographic politics and give a comprehensive consideration to making a rational and proper relation between sea-borne oil imports and land-route oil imports from the north. All these must be concerted with the domestic energy supply system. Moreover, the possibility of looming war threats and the possibility of embargo on the sea shall also be taken into consideration. An unavoidable issue in front of China is to have an effective and authoritative department to manipulate energy and oil affairs.

Investment Opportunities in Coal Mine Methane Projects in Huaibei Mining Area

The Huaibei Mining Group is one of the largest coal enterprises in China, with total coal resources of 32.8 billion tons. Currently there are 14 active coal mines in the area, and the coal production capacity totals 16 million tons per year. Two coal mines are under construction, and when completed their production capacity will total 3 million tons per year. According to Huaibei Mining Group plans, annual coal

production will remain at 16 million tons during 2001-2005.

Total coalbed methane resources are estimated at 317 billion m³ to a depth of 200 m below surface. All coal mines in the Huaibei mining area are gassy or prone to outburst, and total methane emissions from coal mining reached 210 million m³ in 2000. Gas content of coal seams in the Huaibei mining area ranges from 6 to 15 m³/t, and reservoir conditions are favorable for coalbed methane development. Total gas drainage amounted to 17.9 million m³ in 2000, and current annual methane use reaches 8 million m³. It is planned that in-mine gas drainage systems will be constructed and expanded at Huaibei’s four coal mines, resulting in an estimated increase in gas production to over 40 million m³ annually. The Huaibei mining area is located in East China where energy is in short supply, so the market for coalbed methane is strong.

The Huaibei Mining Group has identified two coalbed methane projects that would improve mine safety and provide revenue from the sale of coal mine methane and coal mine methane-generated electricity. The projects would also reduce greenhouse gas emissions and improve local air quality. The projects are:

- 1) *Coal mine methane recovery and use in the Suxian mining area.* This project would provide gas to residential users in the Suxian mining area and the nearby city of Suzhou. The project would reduce annual methane emissions by 40 million m³. Total cost of this project is estimated at 164 million yuan (\$US 19.8 million). Of this total, Huaibei Mining Group would provide 35%, and is seeking the remaining 65% from

outside investment or financing sources. Based on the total investment of 164 million yuan (\$US 19.8 million), the estimated rate of return would be 22% and the payback time would be 8 years. Huaibei Mining Group proposes to begin the project in 2002 year and anticipates that it would be fully implemented by 2004 year.

- 2) *Coal mine methane power generation.* This project would construct a gas turbine power generation plant at the Luling mine, supplying power to the local grid. Total installed capacity of the plant would be 4000 kW. The project would reduce methane emissions by 14 million m³ annually. Total cost of this project is estimated at 17 million yuan (\$US 2.05 million). Of this total, Huaibei Mining Group would provide 35%, and is seeking the remaining 65% from outside investment or financing sources. Based on the total investment of 17 million yuan (\$US 2.05 million), the estimated rate of return would be 36% and the payback time would be 4 years. Huaibei Mining Group proposes to begin the project in 2002 year and anticipates that it would be fully implemented by 2003 year.

The Huaibei Mining Group recognizes that investment in these projects entails certain inherent risks, including the possibility of reduced coal production, fluctuating prices of

coal mine methane and electricity, and difficulties in implementing new technologies. The Huaibei Mining Group and the China Coalbed Methane Clearinghouse can assist potential investors in analyzing these risks and determining the potential range of CMM and electricity sales prices for use in economic modeling. The Huaibei Mining Group is also prepared to address investors' concerns with other important issues such as repatriation of funds.

Huaibei Mining Group is willing to consider various types of partnerships (such as production sharing contracts, cooperative joint ventures, and equipment leases) and financing sources in order to realize the proposed projects. Representatives of banks, foreign companies, foreign governments and international agencies are encouraged to review the attached marketing package and contact us for more information:

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